Industrial Development Bonds

Frequently Asked Questions

What are Industrial Development Bonds?

Industrial Development Bonds (IDBs) are tax-exempt Private Activity Bonds issued by a state or local governmental entity on behalf of manufacturing facilities to finance qualified capital projects. The private user benefits from the governmental entity's tax-exempt status and its ability to issue debt obligations at tax-exempt rates. As a result, the manufacturer receives a lower interest rate on the financing than comparable taxable or conventional financing.

Who is eligible to receive tax-exempt IDB financing?

The Tax Code only permits the issuance of qualified small issues for manufacturers, defined as companies that assemble, fabricate, manufacture, or process a product for resale. A "manufacturing facility" is defined as facility used in the manufacturing or production of tangible personal property. The definition includes processing that results in a change in the condition of such personal property.

What can the tax-exempt bond proceeds be used to finance?

The proceeds of an IDB issue can be used for the following purposes:

- Building and Equipment
- Machinery and Furnishings
- Land, Landscaping
- Costs of Issuance (limited amounts)
- Cost of architects, engineers, attorneys, permits (limited amounts)

What is the maximum amount of tax-exempt financing for a manufacturer?

The maximum face amount of a tax-exempt IDB is \$10 million per company, per public jurisdiction. The capital expenditures for a manufacturing company that receives tax-exempt financing cannot exceed \$20 million during the six (6) year period covering the three (3) years prior to and three (3) years following the issuance of the bonds, including the amount of the bond issue.

In addition, a company may not exceed \$40 million in tax-exempt bonds, in aggregate, for all locations.

Are there any federal restrictions on the use of IDB proceeds?

- 95% of the tax-exempt proceeds must be used for the defined IDB project.
- Up to 25% of the bond proceeds can be used for land costs.
- If a used building is acquired, 15% of the bond proceeds must be used to renovate the facility.
- Two percent (2%) of the bond proceeds can be used to finance the costs of issuance.
- The maturity (term) of the bonds cannot exceed 120% of the estimated useful life of the assets being financed.
- The bond term can be structured for up to 30 years.

Did the 2009 stimulus bill change IDBs?

IDB usage has been expanded as a result of the recently signed ARRA Bill. Some of the changes are permanent and others only apply to IDB's issued in 2009 and 2010. The changes include:

- Eligibility for the manufacturing of intangible property such as software and intellectual property.
- Increasing the "small issuer limit" for bank deductibility on bank-held bonds.
- Expanded eligibility for related and subordinate facilities, such as warehousing of raw materials. Previously, such facilities were limited to 25% of the issue.

What costs are associated with IDBs?

Typical costs for tax-exempt manufacturing projects include Underwriter's Fee, Bond Counsel, Printing of Offering Documents and Bonds, Trustee's Fees, and publication cost. In addition, various issuing entities charge a fee associated with financing.

What are the advantages of Industrial Development Bonds?

The major advantage of IDBs is the ability for manufacturers to receive below market rate financing. Typically, the interest rate on IDBs is 25-30% below Prime on a variable interest rate basis or 2-4 percentage points lower than taxable alternatives. Fixed rate options are also available.

In addition to the benefit derived by the borrower, the local community in which the manufacturing entity is located typically receives an economic benefit in the form of a net positive impact to the local tax base generated from the job creation and/or job retention associated with the expansion project.

For more information, call:

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For more information on changes resulting from the ARRA Bill:

www.cdfa.net